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RUEAIIA/CIA WASHDC PRIORITY  
RUEAWJA/DEPT OF JUSTICE WASHDC PRIORITY  
RHMCSUU/FBI WASHINGTON DC PRIORITY  
RUEHLMC/MILLENNIUM CHALLENGE CORP PRIORITY 0160  
RHEHNSC/NSC WASHDC PRIORITY

C O N F I D E N T I A L JAKARTA 001965

SIPDIS

DEPT FOR EAP, EAP/MTS, EAP/MLS, EAP/RSP, E, EEB, INL  
DOJ FOR CRIM AAG SWARTZ, DOJ/OPDAT FOR BERMAN  
NSC FOR D.WALTON; MCC FOR ISMAIL

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TAGS: [PGOV](#) [ECON](#) [KJUS](#) [KCOR](#) [SNAR](#) [ID](#)  
SUBJECT: BANKING SCANDAL DISTRACTS YUDHOYONO FROM REFORM  
EFFORTS

REF: A. JAKARTA 1950  
[1](#)B. JAKARTA 1946 AND PREVIOUS  
[1](#)C. JAKARTA 1847  
[1](#)D. JAKARTA 69

Classified By: Ambassador Cameron Hume, reasons 1.4 (b+d)

[1](#)1. (C) SUMMARY. Managing public perception and scrutiny regarding the ongoing scandal surrounding the bailout of Bank Century threatens to derail President Yudhoyono,s reform agenda. If unsubstantiated allegations that bailout funds were diverted to his political party or family are confirmed, Yudhoyono,s presidency could be endangered. This drama pits vested interests against reformers and the ruling party against opposition parties. It could also make it more challenging for the U.S. to engage with credible partners.  
END SUMMARY

#### AN EMERGING CRISIS

[1](#)2. (SBU) As the scandal involving Indonesia,s Corruption Eradication Commission subsidies, allegations of official wrong-doing in the decision to bail out Bank Century have overtaken the political buzz in Jakarta. The controversy stems from a decision in November of 2008 to bail out the troubled bank in order to prevent systemic risk in a questionable global financial climate. Allegations of official wrongdoing in the case have centered on whether the bailout of the bank was needed and, more importantly, whether influential individuals or political parties received bail-out funds.

[1](#)3. (U) On November 23, GOI,s Supreme Audit Board (BPK) released a lengthy audit of the decision to bail out the bank. The audit suggested that Finance Minister Sri Mulyani Indrawati and then-Bank of Indonesia Governor (now Vice President) Boediono took illegal action in rescuing the bank. The report ignored, however, the question of whether recapitalization was misallocated. Finance Minister Mulyani has publicly rebutted allegations that the Ministry of Finance or the central bank acted inappropriately, providing legal justification for action taken to bail out the bank.

...OF THE POLITICAL ELITE?

[1](#)4. (SBU) Nevertheless, the political and public fallout from the scandal still dogs the administration. Public demonstrations around Indonesia calling for the suspension or dismissal of both Indrawati and Boediono persist. Indonesia,s Parliament voted on December 1 to commence a formal inquiry into official wrongdoing on the part of the

administration which will divert efforts of the fledgling government to initiate its 100-day programs.

15. (C) Some observers suggest that the Bank Century case is just the latest episode in a continuing battle over economic policy waged between the technocrats on one side and those with vested business interest on the other. Reform-minded contacts in Indonesia's Chamber of Commerce and Industry worry that the scandal will marginalize technocrats Mulyani and Boediono, thereby diluting the administration's effectiveness in pressing for institutional and economic reforms.

CAN THE KPK GET BACK ON ITS FEET?

16. (SBU) In the meantime, the KPK has taken the lead in investigating allegations that funds may have been improperly diverted. The Supreme Audit Board asserts that it is unable to track where funds may have been transferred and has left this task to law enforcement authorities. Many believe that the KPK is the most credible organization to perform criminal investigations after allegations that a high-ranking police official was involved in the Bank Century scandal. However, some civil society leaders suggest that a weakened KPK will find this case difficult to pursue. Given the possibility of a prolonged Parliamentary inquiry into the case, allegations of official corruption are likely to dog the administration for the next several months.

HUME